INTERNATIONAL JOURNALS

OPUS PRO SCIENTIA ET STUDIUM

EXTERNAL AUDIT FOR SIME DARBY BERHAD: AUDIT RISK, AUDIT IMPLICATION, AUDIT TEST AND AUDIT EVIDENCE

International Journal of Accounting, Auditing and Finance

Vol. 7 Issue: 10, pp.2-32
April 13, 2018

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ABSTRACT
Audit evidence is all the information, whether obtained from audit procedures or from third party resources, is used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence consists of both information that supports and corroborates management's assertions regarding the financial statements or internal control over financial reporting and information that contradicts such assertions. It is at this point where the researcher uses analytical review techniques to identify and explain five areas of high audit risks. Subsequently, an extensive justified evaluation is performed on the audit implications faced by external auditor to manage audit work on the areas selected for investigation. Based on the analytical procedures, the researcher then elaborates critically on the audit tests that could be carried out to investigate the issue. The entire audit process is performed on Conglomerate Company, Sime Darby Berhad.

Keywords: Risk, Implication, Test, Evidence.

To Cite This Document

Doshi, H. and Suppiah, K., 2018. External Audit for Sime Darby Berhad. Audit Risk, Audit Implication, Audit Test and Audit Evidence. *International Journal of Accounting, Auditing and Finance.* 7(10), pp.2-32.

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NOTE: *The report contains* ***bolded words*** *for easy read and* ***cursive words*** *to help keep track of main points. It also contains images of diagrams and charts to promote visual learning.*

SIME DARBY

The Malaysian company listed under Bursa Malaysia chosen is **“Sime Darby Berhad”** and all information pertaining to *audit risks, audit implications* and *audit test* explained in the following paragraphs of this report is based on 3 years financial analysis performed on Sime Darby’s using its annual report as of 30th June 2015, 2016 and 2017.

Sime Darby represents one of the **largest multinational companies** listed on Bursa Malaysia with operations running in twenty-five countries and four territories.

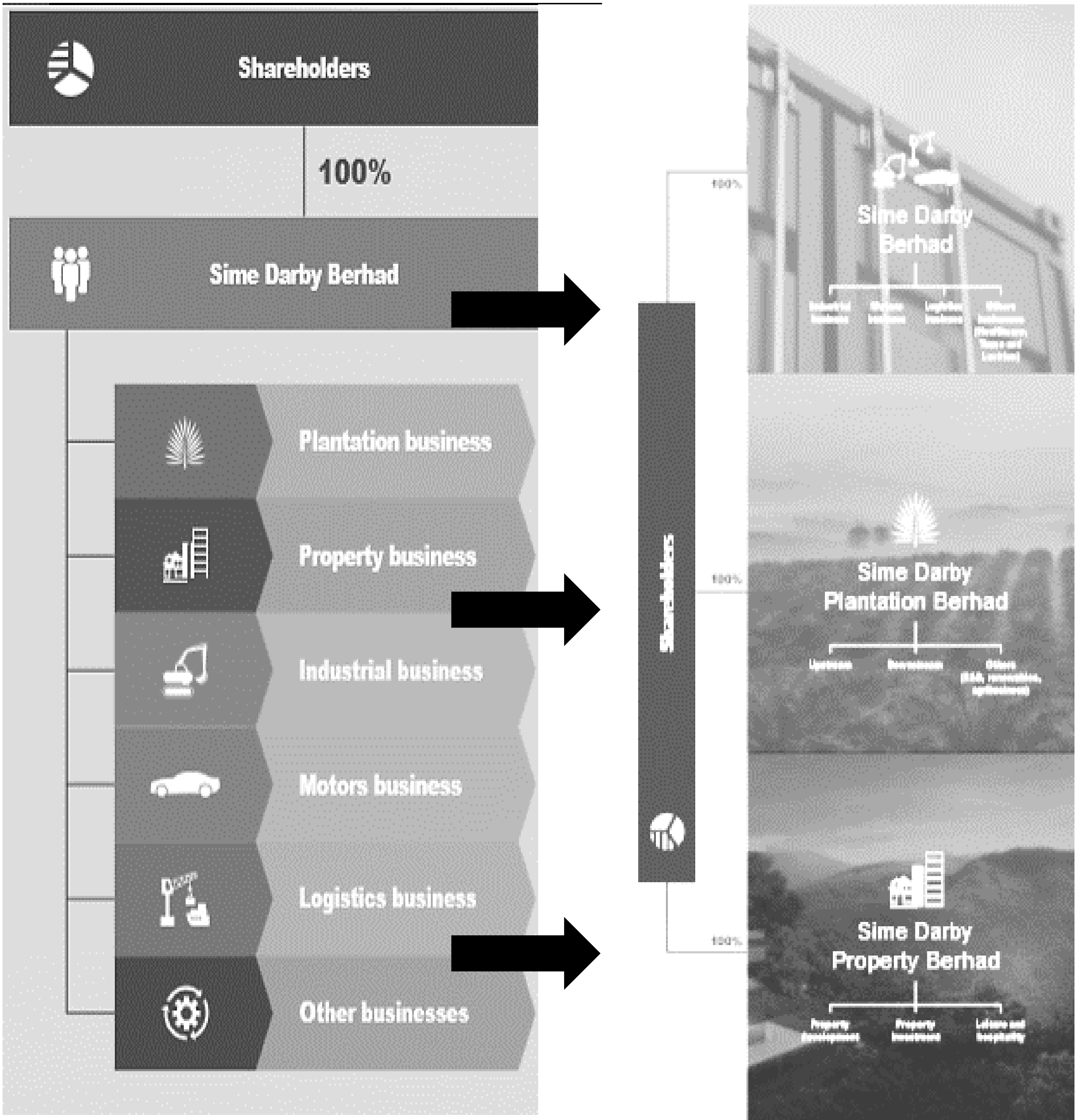
Since 2015, Sime Darby has been operating its business through the process of *diversification* where it has its business in *five* important areas, namely, **“Plantation”, “Property” and “Industrial Equipment”, “Motors”** and **“Logistics”.**

However, as of 2017, the company will be undertaking a **restructuring plan** that will see the creation of three separate and independent listed entities (key player areas) in the form of **iconic standalone business**- through the method of **“Pure Play”** such as **“Sime Darby Berhad (SDB) of Trading and Logisctics”, “Sime Darby Plantations Berhad”** (SD Plantations) and **“Sime Darby Property Berhad”**(SD Property)- with each focusing on one distinct business.

This will be done through the *distribution of the company’s entire shareholdings* in SD Plantation and SD Property to shareholders of the Company.

SEE IMAGES ATTACHED BELOW

Sime Darby Conglomerate change through Pure Play



Source: Salleh, 2017

Sime Darby Distinct Businesses

Sime Darby Plantation Berhad

1. **Upstream**: Driving operational excellence towards Mission 25:25 by focusing on productivity, cost efficiency and leveraging on digitisation
2. **Downstream**: Serving our customers' evolving needs by becoming the preferred solutions provider focused on high-margin, high-value differentiated and sustainable products, with presence in key markets
3. **Integrated play**: Maximising returns across the palm oil value chain by leveraging on our integrated business model and sustainability credentials

Sime Darby Property Berhad

1. Building communities by focusing on our core strengths in township development and increasing our product diversification in integrated and niche urban developments, as well as industrial products.
2. Leveraging on key areas with high development potential and building a pipeline of land parcels with major infrastructure and good connectivity.
3. Optimise and grow portfolio of recurring income assets.
4. Expanding overseas by leveraging on the Battersea Power Station development as a launchpad for future projects in the UK and pursuing other growth opportunities through selective mergers and acquisitions.

Sime Darby Berhad

1. Continuing our cost optimisation and operational excellence strategies to improve asset efficiency and returns.
2. Focusing on value-added revenue streams such as after sales service and product support to improve returns.
3. Leveraging on our strong relationships with our principals to expand and diversify our operating footprint.
4. Making selective acquisitions in attractive markets to increase scale and market presence.
5. Streamlining our portfolio to redeploy capital to our core.

Source: Salleh, 2017

The New Sime Darby

Source: Salleh, 2017

Audit Risk, Implication, Planning and Test

According to Messier and Boh (2007) audit risk is the risk that auditor may express inappropriate audit opinion when the financial statements are materially misstated. It is the risk of an auditor delivering unqualified opinions when financial statement contains material misstatement. Thus, auditors must perform audit to reduce these risks.

Audit risk can be represented in a model where:

“Audit Risk (AR)= Inherent Risk (IR) x Control Risk (CR) x Detection Risk (DR)”

Applying this model allows auditor to play risk-based audit approach in accessing risk, planning risk level and performing relevant test of control and substantive test to respond towards **material misstatements at overall financial statement level** and **assertion level for individual account balances and classes of transactions.**

An auditor is required to obtain understanding of the entity and its environment by performing risk assessment procedures like inquiry of management, analytical procedures and observation and inspection in order to identify areas of high audit risks. However, in this report, the areas of high audit risk in Sime Darby shall be identified and evaluated through the process of conducting **preliminary analytical procedures** that is concerned in recognizing amounts and events of unusual transactions, trends and ratios that may create implications for audit planning and audit work addressed in the next section of this report. (Messier and Boh, 2007)

Note:

- *The items and its figures all refer to the "Sime Darby Group" and not "Sime Darby Company".*
- *All figures are in 'RM millions'.*
- *All 'Note' figures refer to Sime Darby "Notes to Financial Statement" number. Thus, for further details, the person concern may refer to the respective note extract provided in the appendix below.*
- *The analytical review of percentage and ratios provided under explanation of audit risks can be found in detail under "Financial Analysis Report" attached in Appendix for further evidence and justification. The report has been made by the author himself.*
- *The note number provided as bullet points before every audit risk explanation refer to note number in 2017 annual report. Most research and text are taken from 2017 annual report as comparison of all 3 years is systematically and distinctly provided in it.*

1.0 Non-Current Asset: Property, Plant and Equipment (PPE)

1.1 Audit Risk for PPE

- Note 4: Critical Accounting Estimates and Judgment in Applying Accounting Policies
- Note 17: Discontinuing operations
- Note 21: Property, Plant and equipment
- Note 40: Assets Held for sale and Liabilities Associated with Assets Held for sale
- Note 63: Material events after Reporting Period

This area seems to have high audit risk as based on the financial analysis illustrated according to note 21, PPE figure of RM23027 in 2015 increased to RM24456 in 2016- a rise of 6% or RM1429 due to the purchase of additional PPE. However, PPE declined from RM24, 456 to RM5624 in 2016 to 2017. This is a fall of RM18832- approximately a reduction of 77%. Thus, overall PPE has dropped from 6% to -77% which is major declination of 71%. (Salleh, Manther and Coopers, 2017)

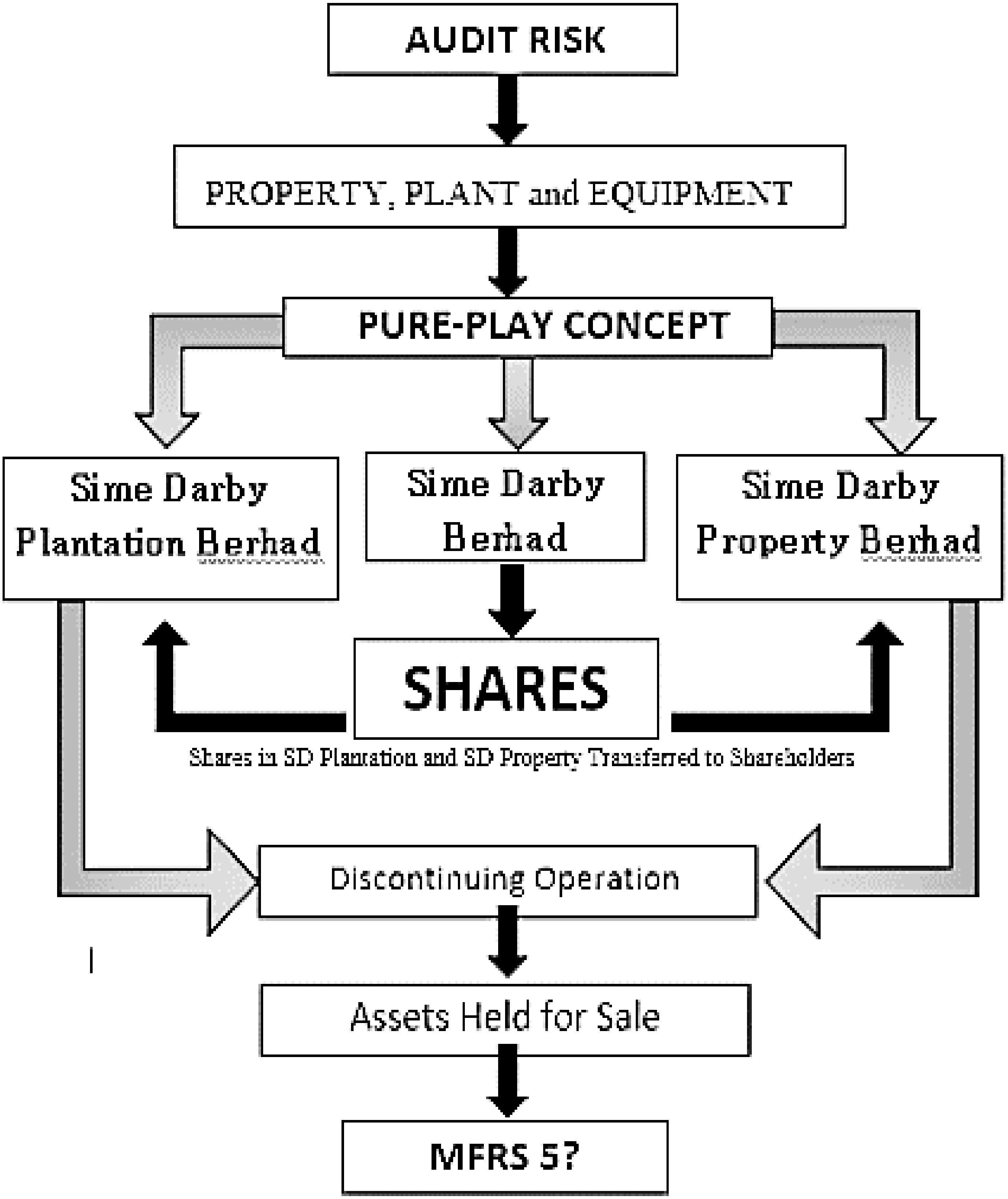
The impact is evident in total figure of non-current asset in balance sheet- where despite increase of RM3187 or 9% from RM36639 in 2015 to RM39826 in 2016, there is a tremendous declination from 2016 to 2017 with figures RM39826 falling to RM10853. This is a fall of RM28973 that is approximately -73%. 9% falling to -73% shows a reduction of 64%.

This declination is due to Sime Darby's new concept of pure-play in creating three standalone listed entities, namely SD Plantation, SD Property and SDB, in the plantation, property and trading and logistics sector.

Thus, to achieve this, SDB is transferring its entire shareholding in SD Plantation and SD Property to shareholders of the company. This distribution has been presented as discontinuing operations (note 17) in the financial statements of the Group and the PPE are allocated under 'assets held for sale' (note 40). This is evident where assets held for sale have inclined by 13951% from RM307 in 2016 to RM43136 in 2017. (Salleh, Manther and Coopers, 2017)

However, according to note 4 and 63, this is a proposal and is subject to approval of the Securities Commission, Bursa Securities and shareholders- where upon proposal completion the company will remain listed on the Main Market of Bursa Securities but will cease to be the shareholder of SD Plantation and SD Property.

The pureplay concept that is discontinuing operations and tremendously reducing PPE clearly becomes an area of high audit risk – where auditors must investigate if “Non-current Assets Held for Sale and Discontinued Operations” follows provisions under MFRS 5. (Salleh, Manther and Coopers, 2017)


AUDIT RISK
PROPERTY, PLANT and EQUIPMENT
PURE-PLAY CONCEPT
Sime Darby Plantation Berhad
Sime Darby Berhad
Sime Darby Property Berhad
SHARES
Shares in SD Plantation and SD Property Transferred to Shareholders
Discontinuing Operation
Assets Held for Sale
MFRS 5?

1.2 Audit Implication and Planning for PPE

First, to identify if proposed distribution meets the discontinuing requirements of MFRS5 "Non-current Assets Held for Sale and Discontinued Operations". Because. significant judgment is required in determining the appropriateness of the classification of SD Plantation and SD Property as discontinuing operations in terms of depreciation. To see if the accounting treatment of discontinuing assets satisfies requirements of MFRS5.

Second, to check if the results of the Plantation and Property businesses to be distributed to shareholders, have been presented as discontinuing operations in the financial statements of the Group. This means, if the assets held for sale have been correctly transferred from PPE under non-current assets section to "assets held for sale" section in the balance sheet- showing how their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Third, to detect if the proposal of internal restructuring, distribution and listing has been disclosed vividly as a material event after reporting period. So that users of financial statement can have a clear understanding about the pure-play consequences.

1.3 Audit Test for PPE

First, **recalculation and valuation check**. Recalculate depreciation for a sample of PPE that are allocated for assets held for sale in terms of lower of carrying amount and fair value less cost to sell. Then, compare the values against depreciation recorded in depreciation account in general ledger. This way, auditor can know if company cease depreciation according to MFRS5. Also, examine entity's valuation and allocation documentation supporting assets held for sale- like disclosure on discontinuing operation while ensuring if they are presented separately in the statement of financial position.

Second, **scanning**. Review transaction data by verifying PPE and Assets Held for Sale T-accounts in general ledger. Before cross checking the amount transferred from PPE to Assets Held for Sale account, check posting accuracy from journal to ledger transaction. Then, compare the account balance transferred correctly to balance sheet.

Fourth, **documentary confirmation and check of accuracy**. Since the shareholdings of SD Plantation and SD Property shall be transferred to the shareholders, the auditor should select proposal documents and the significant approval documents of director, regarding the shareholding distribution for proof of ownership. To check approval declaration statement and authorization.

2.0 Revenue

2.1 Audit Risk for Revenue

- Note 3: Significant Accounting Policies: Revenue Recognition
- Note 4: Critical Accounting Estimates and Judgment in Applying Accounting Policies (independent auditor's report)
- Note 6: Revenue
- Note 58: First Time Adoption of MFRS and early adoption of MFRS 15
- Five Years Financial Highlights on page 35 of Annual Report 2017

According to note 6, it can be evaluated that the revenue declined from RM43729 to RM29452 in 2015 to 2016. This is fall of RM14277- approximately 33%- However, in 2017, there is sudden increase in revenue from RM29452 to RM31087 which is 6% increase. Thus, the risk involved emerges concerns on why and how there is a huge inclination of revenue from -33% to 6%.

This is because of reclassification of revenue in terms of "continuing" and "discontinuing" operations.

In 2015 and 2016, 'revenue' has been recorded without any classification to it- representing revenue from all continuing operations. Thus, actual revenue amount for 2015 and 2016 was RM43729 and RM43963 respectively.

However, in 2017, revenue for 2016 was restated to RM29452. This is why, when comparing 2015 with 2016 restated figure, there is a fall of 33%. However, the actual figure is RM43963.

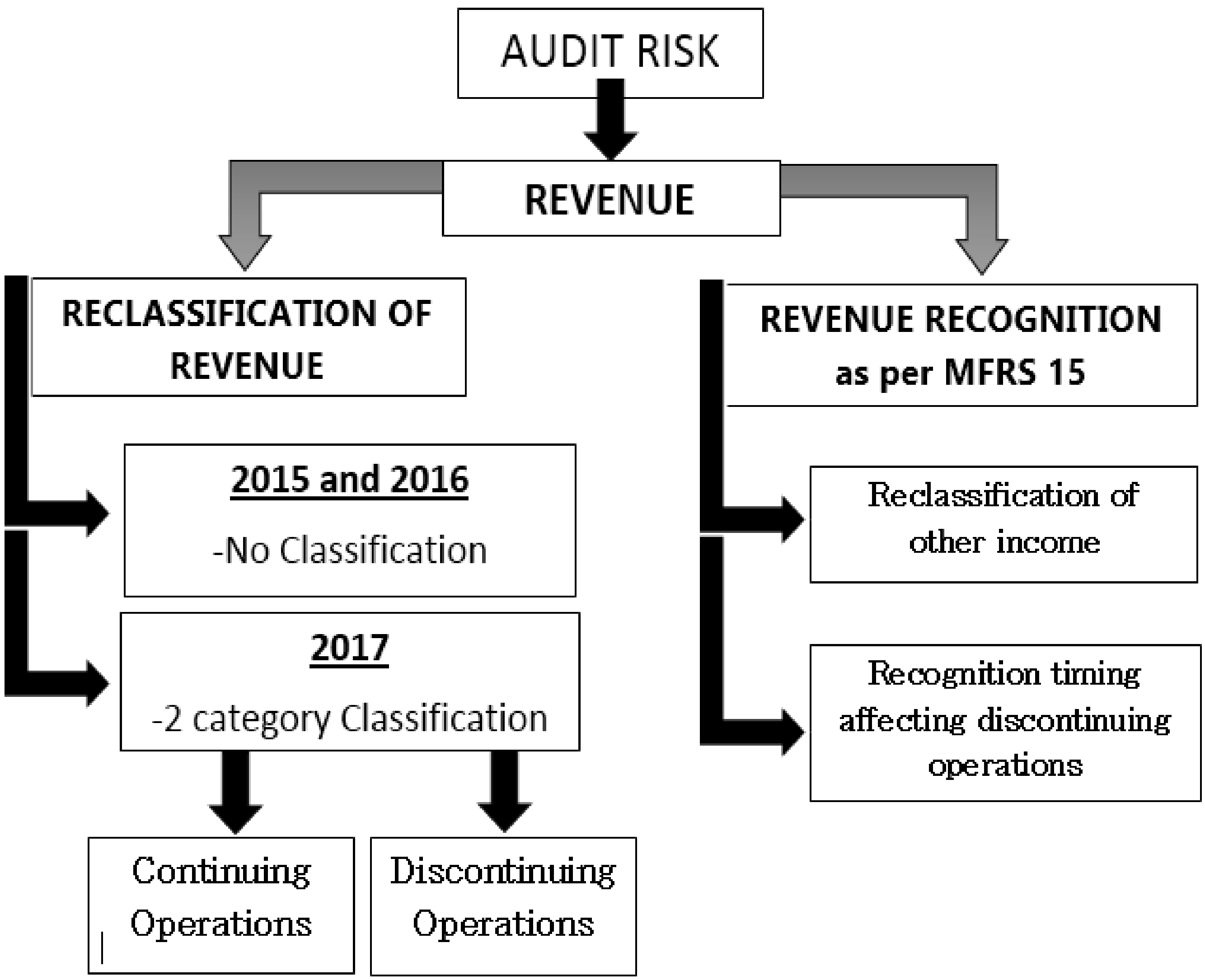
This is because, revenue 'classified' into 2 categories namely 'continuing operations' and 'discontinuing operations' due to some continuing operations decided to be discontinued. This is because of 2017 'pure-play' concept of Sime Darby where SD plantation and SD property has been recorded as discontinuing operations. Thus, revenue has been splitted- resulting RM43963 to be stated as RM29452 from 'continuing operations' and RM15040 made from of discontinuing operations. Therefore, the 2016 revenue figure is very low comparative to 2015- showing fall of -33%.

Also, there may be a minor risk pertaining to changes in restated revenue figure of 2016 due to changes in 'revenue recognition' in 2017. According to note 58c, the restated 2016 revenue figure from RM43963 was RM29221 (not RM29452) following previous revenue recognition methods of FRSs.

Because, as of financial year ended 30th June 2017, the group decided to elect for early adoption of MFRS 15 "Revenue from Contracts with Customers"- causing 2016 restated revenue of RM29221 to be recognized (for comparability purpose with 2017 revenue figure recognized under MFRS15) as RM29452 in 2017 annual report.

This can be clearly seen in note 58c, where RM29221 is increasing to RM29452 due to MFRS15 that requires reclassification of other income of RM231 million to revenue. This is how 2016 revenue figure is RM29452 in 2017 annual report.

Thus, this area is an **inherent audit risk** as it is important to investigate whether Sime Darby has accurately illustrated revenue classifications and applied MFRS15 correctly in recognizing revenue over time or at a point in time.


AUDIT RISK
REVENUE
RECLASSIFICATION OF REVENUE
2015 and 2016
-No Classification
2017
-2 category Classification
Continuing Operations
Discontinuing Operations
REVENUE RECOGNITION as per MFRS 15
Reclassification of other income
Recognition timing affecting discontinuing operations

2.2 Audit Implication and Planning for Revenue

First, to examine if revenue is recognized in conformity with the new adoption of MFRS15 to know if Sime Darby has correctly followed the 5-step model and recognized revenue according to the transfer of promised goods or services to customers- where the amount the entity expects to receive in return for goods and services exchanged should distinctly reflect the amount considered. To see if the accounting treatment of revenue satisfies requirements of MFRS15.

Second, to verify if revenue transactions are recorded on timely basis and not in the wrong period.

Third, to check if continuing and discontinuing operations are properly classified in terms of their revenue figures. This is because, previously Sime Darby earned from continuing operations only, however, in 2017, due to pure-play exercise, there are many discontinuing operations generating additional income. Thus, it is vital to check if there is a segregation of this information so that it is not assumed that the continuing operations have been generating more revenue.

2.3 Audit Test for Revenue

First**, accounting policies and standards check**. To pick one year before IFRS15 was adopted (in this case 2016) and check if 2016 revenue figure has been restated with proper revenue recognition practice. Also, test a sample of sales invoices for presence of authorized customer and the terms of contract agreed upon. Not only that, compare prices and terms on sales invoice to authorized price list and terms of trade to determine how transaction price is allocated to separate performance obligations and whether revenue is recognized over time or at a point in time when performance obligations are satisfied.

Second, **test of control for cutoff assertions**. the auditor can test by comparing the date on bills with date on respective sale invoice and the date the sales invoice was recorded in the journal. This can help auditor find out if all documents were forwarded to the billing department and that if revenue was recorded in timely basis. This helps solve audit risk of huge revenue inclination.

Third, **classification test by vouching**. To review the journal and general ledger for proper classification and counter check the amounts of revenue recorded under discontinuing operations in the ledger with the statement of profit and loss. This is to confirm if correct revenue figure has been recorded under discontinuing operations.

3.0 Finance Cost

3.1 Audit Risk for Finance Cost

- Note 15: Finance Costs
- Note 41: (Equity) Share Capital
- Note 46: Current Liabilities: Borrowings

According to not 15, the finance costs has been declining from RM471 to RM429 in 2015 to 2016. This is a fall of 9%. It diminishes further by 33% to RM289 in 2017. This shows the cost involved in borrowing money is reducing. It can be seen as a good sign; however, tremendous fall may involve various risks for Sime Darby. (Salleh, Manther and Coopers, 2017)

The 9% declination of finance costs was due to the repayment of borrowings from the proceeds of RM2.2 billion from the perpetual sukuk issued on 24 March 2016 and the shares placement of RM2.3 billion on 13 October 2016. The weighted average cost on borrowings remained at 3.4%. Thus, borrowings declined by 30% from RM6318 (2015) to RM4419 (2016).

The decline of finance costs by 33% was because, in 2017, Sime Darby increased its issued and paid-up ordinary share capital from RM3,163,536,269 to RM3,400,419,688 comprising 6,800,839,377 ordinary shares of RM0.50 each issued at RM7.45 which generated proceeds of RM2357. Therefore, there was major increase of 194% in share capital from RM3164 in 2016 to RM9339 in 2017. This was used to repay borrowings causing it to reduce continuously by 56% from RM4419 in 2016 to RM1948 in 2017- further reducing finance costs.

This shows that Sime Darby has taken more funds from the shareholders to settle of debts which means the proportion of profit has to be divided more to pay return on each share- due to higher weighted average number of shares.

Although the finance costs diminish, in future, this exposes the business to **interest rate risk and credit risk-** where the auditors need to investigate if the business can continue maintaining this technique to meet its financial obligations when it falls due.

3.2 Audit Implication and Audit Planning for Finance Cost

First, plan to investigate the accuracy and reliability of company's borrowings restructuring plan. This is to examine whether the reduction in borrowings and inclination in repayments has been mutually decided in Sime Darby and is being performed towards pure-play concept.

Second, plan to substantiate if entity has recorded current liabilities correctly and counter check transactions and account balances in the general ledger regarding the repayments.

Third, plan to check if repayments are recorded in the right classification of liabilities. This is to confirm that repayments are specifically associated in settling borrowing under current liability and not long-term liability. And, to also know if there is an error of recording long term loan repayments as short term.

3.3 Audit Test for Finance Cost

First**, inspection of documents through vouching**. The auditors can select 'borrowings' from general ledger and examine underlying source document of board of director's minutes whether they have included the restructuring plan in their discussion and approved it. To test the accuracy, auditors can search for evidence regarding any authorization illustrated regarding new borrowings repayment strategy. (substantive test for transaction to check occurrence)

Second, **substantive test of details of account balances**. Since the finance cost are reducing due to company following 'borrowings restructuring plan", the auditor can choose a few banks creating credit for Sime Darby and communicate with them (by calling) to confirm if Sime Darby is settling great amount of its borrowings. Auditors can also obtain standard bank confirmation that request specific notes from banks regarding loan repayment. (check completeness)

Third, substantive procedure on transaction test for classification and errors. To examine the current and long-term liabilities disclosures in terms of counter checking due dates on notes for proper classification. Also, check the double entries for loan payable and bank account to see if the repayment amount has affected short or long-term loan account.

4.0 Equity: Share Capital and Reserves

4.1 Audit Risk for Equity: Share Capital and Reserve

- Note 18: Earnings Per Share (EPS)
- Note 41: (Equity) Share Capital
- Note 43: Reserves

This section is related to 'finance cost'- where according to note 41, since finance cost is reducing due to Sime Darby settling borrowings by issuing additional share capital through Placement and Dividend Reinvestment Plan (DRIP), it shows that the shareholders may be convinced with the future success of pure-play strategy, and thus willing to support Sime Darby by buying more shares and reinvesting their dividends by buying shares from the company's reserves. This is why, share capital has increased by 194% from RM3164 in 2016 to RM9229 in 2017- that is an increase of RM6135. Also, the reserves have increased by 116% from RM3164 in 2016 to RM9229 in 2017.

A tremendous increase in share capital and reserves, decrease in borrowings and finance cost depicts audit risk and high probability in existence of material misstatements. Because, Sime Darby took more funds from shareholders including their dividends by reinvesting them into reserves, to settle off debts- which means the proportion of profit has to be divided more to pay return on existing and additional shares- due to higher weighted average number of shares. This reduces earnings per share (EPS).

EPS at 36.7 sen was 4.7% lower compared with the 38.5 sen in FY2016 due to higher weighted average number of shares in FY2017 of 6,639 million shares against 6,269 million shares in FY2016. These shares emerge following issue of 316.4 million shares pursuant to the Placement exercise and the 157.4 million shares issued pursuant to the Dividend Reinvestment Plan- for borrowings repayment. (Salleh, Manther and Coopers, 2017)

This is a **high inherent and control audit risk** area because in 2017, the shareholders may be corporative, but in future, they may be reluctant to buy shares or reinvest dividends through DRIP if the EPS and ROE continues to decrease.

4.2 Audit Implication and Planning for Equity: Share Capital and Reserve

First, plan to identify if Sime Darby has successfully adopted Companies Act 2016 in 2017 replacing Companies Act 1965 in terms of whether the company has accurately adhered to the idea of abolishing par or nominal value of shares and stop maintaining share premium, capital redemption reserve and authorized capital as they are all no longer applicable.

Second, Sime Darby has increased the share capital through Dividend Reinvestment Plan (DRIP). To investigate this, the auditor must obtain a schedule of all activity in the account of current period and ensure beginning balance is agreed to the prior years working papers and the ending balance is agreed to the general ledger. Upon this, auditors must plan to check if all capital transactions regarding DRIP are approved by the board of directors and shareholders especially issues of additional share capital that are subject to the consideration and approval of regulatory bodies such as Securities Commission and Stock Exchange.

Third, to verify if the transfer of dividends to the reserves as retained profits have been performed according to the approval and knowledge of the shareholders. This is to ensure if the shareholders are supportive towards the company and have been communicated about important decision taken in the company by the directors or managers. To examine the principal-agent relationship in discovering inclination of reserves.

4.3 Audit Test for Equity: Share Capital and Reserve

First, **classification and valuation check-** to vouch if the share premium account of Sime Darby has been transferred to share capital and the revaluation reserve reclassified to retained earnings. This can be done by checking the revaluation technique used by Sime Darby in terms of whether the Group has elected to use the previous revaluation of certain plantation land and buildings as deemed cost as at the date of transition under MFRSs.

Second, **substantive test and confirmation for occurrence and completeness.** The auditor can test the occurrence of additional share capital transaction relating to DRIP by verifying the transactions recorded in the current year to the minutes of 'board of directors' or 'shareholders' meetings and documents of approval from relevant regulatory bodies. The auditor should determine that the shareholders records are properly maintained and updated to verify the total number of additional shares bought by per shareholder via reinvesting dividends in Sime Darby's reserves through DRIP and this should be reconciled to general ledger share capital account to confirm if additional value of shares match to what has been disclosed.

Third, **informal oral inquires to client.** The auditors can test by selecting few shareholders of the firm and have a discrete discussion with them regarding their knowledge and approval of allowing Sime Darby to reinvest their dividends into reserves. This way auditor can obtain and evaluate corroborative evidence of some characteristics of this shareholder 'class' and enable them to form a conclusion on how principal-agent relationship is practiced and the approval of shareholders regarding major decisions.

5.0 Profit for Financial Year (before discontinuing operations)

5.1 Audit Risk for Profit before discontinuing operations

Note 1: General Information Note 17: Discontinuing Operations

According to financial analysis, "Profit for the Financial Year" is inclining gradually with 2% increase in 2015 to 2016 from RM2549 to RM2608 and 3% increase in 2016 to 2017 from RM2608 to RM2681. (Salleh, Manther and Coopers, 2017)

This is because of profits generated from 'discontinuing operations' beginning from 2016 of RM1744 and subsequently RM1886 in 2017- increasing by 8%.

NOTE: The Board of Directors (BOD) has *proposed* to create 3 standalone entities and at the same time *approved* the execution of this plan that involves the distribution of company's (Sime Darby Berhad) entire shareholdings in SD Plantation and SD Property on the basis of 1 SD Plantation share and 1 SD Property Share for every 1 Sime Darby share, out of distributable reserves, to Entitled Shareholders. Thus, in order to transfer shareholdings to the shareholders, the company has presented the results of plantation and property business as discontinuing operations.

However, it important to note that the shareholding has not been transferred as of 2017. It has been approved by BOD but completion of it is subject to approval of the Securities Commission, Bursa Securities and shareholders. But, just to encourage this completion, Sime Darby has taken stepping stone by 'discontinuing operations'.

Due to 'discontinuing', company is able to know its revenues, expenses and profits.

(Salleh, Manther and Coopers, 2017)

If there were no discontinuing operations, then the profit for financial year will decrease- as profits before discontinuing operations is on the decline stage experiencing fall of 66% from RM2549 in 2015 to RM864 in 2016 and further decline of 8% to RM795 in 2017. In average, profits are falling and without extra profits from discontinuing operations, the profits of financial year shall be shown diminishing.

This is an area of high audit risk because the profits from discontinuing operations is a one-time thing. It cannot generate continuing profits unless business keeps on discontinuing operations. Thus, it raises concerns if business is able to continue and successfully implement pure-play in future.

This is a **business risk** where auditors need to identify and understand material misstatements as it consequently affects audit and **detection risk**. Also, it raises **going concern issue** in terms of the ability of the entity to continue as a going concern.
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This is a **business risk** where auditors need to identify and understand material misstatements as it consequently affects audit and **detection risk**. Also, it raises **going concern issue** in terms of the ability of the entity to continue as a going concern.

5.2 Audit Implication and Planning for Profit before discontinuing operations

First, to review management's plans and actions implementing transition process towards pure-play and the possible adverse effects on business projects and continuing operations- by obtaining relevant documents regarding proposed internal restructuring, distribution and listing. This can confirm going concern reducing auditor's detection risk.

Second, examine possible main factor diminishing profitability-that is gradual fall in revenue and rise in operating expenses from continuing operations. To detect unrecorded revenue, incorrect amount in transaction and improper posting to sales journal or ledger.

5.3 Audit Test for Profit before discontinuing operations

First, **inquiry with management**. Auditors can communicate with management about forecasted cash flow and profits planned to receive from pure-play. Thus, the auditor can request for profit forecast sheet and compare it with similar forecasts made in previous years. This is to see the judgement of business and the ability to meet their forecasts so that auditor can confirm whether material uncertainty exists or not. Also, to inquire about future plan seeking admission of SD Plantation and SD Property into office list of Bursa Securities by requesting proposals (if any) sent to Bursa- allowing auditor inspect authorization.

Second, **analytical ratio procedure and transaction and account balance verification with vouching.** Compare the current year amount for each revenue and expense item with prior year balances. Any account that deviates from the prior year's by more than predetermined amount or percentage can be examined by calculating ratio of individual expense item to net sales and comparing this percentage over number of years or industry averages. Items that are still out of line, auditor can verify revenue and expense transaction by vouching. For example: - selecting revenue transaction from sales journal and ledger and vouching it against sales invoice and shipping document by comparing dates. Also, compare prices and terms of sales invoice to authorized price list and trade terms. This way, possible misstatement in sales and expense can be detected to explain falling profitability.

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